STATE CORY

74-2020

CITY OF CROSWELL

Sanilac County, Michigan

RECEIVED DEPT. OF TREASURY

DEC 2 8 2004

FINANCIAL STATEMENTS FINANCE DIV.

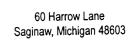
June 30, 2004



	P.A. 2 of 196 nment Type Town:		Village	Othe			SAI	NILAC		
idit Date			Opinion 10/2	n/n4		Date Accountant Report 12/27/04				
e have a cordance	audited the e with the Statements	e fina e Sta	ancial state	ments of	this local unit of vernmental Accordings	government and renounting Standards Bo ent in Michigan by the	dered an opinion on ard (GASB) and the Michigan Departme	financial se Uniformation of Treas	sury.	
e affirm	that:								REC	EIVE OF TREASU
. We ha	ave compl	ied w	ith the <i>Bulle</i>	etin for the	e Audits of Local	Units of Government	in Michigan as revise	eu.		2 8 200
. We a	re certified	publ	ic accounta	nts regist	ered to practice i	n Michigan.				
e furthe	r affirm the s and reco	follo mme	owing. "Yes indations	respons	es have been dis	closed in the financia	l statements, includir	ng the note	OCAL AU	DIT & FINANC
ou must	check the	appli	cable box fo	or each ite	em below.			financial (statemen	ts
Yes	√ No					ies of the local unit ar				
Yes	√ No		275 of 1980	0).		e or more of this un				
Yes	✓ No		amended).			nce with the Uniform				
Yes	√ No		requiremen	its, or an	order issued und	ditions of either an er the Emergency Mu	inicipal Loan Act.			
Yes	√ No		as amende	ed [MCL 1	[29.91], or P.A. 5	ments which do not o 5 of 1982, as amende	ed [IVICE 38.1132]).			
Yes	√ No	6.				distributing tax rever				
Yes	✓ No		pension be credits are	enefits (ne more tha	ormal costs) in than the normal cos	stitutional requiremence current year. If the street requirement, no cor	e plan is more than htributions are due (p	aid during	the year	').
Yes	√ No	8.	The local (MCL 129		s credit cards an	d has not adopted a	an applicable policy	as require	ed by P.	A. 266 of 19
Yes	✓ No	9.	The local	unit has n	ot adopted an inv	vestment policy as re	quired by P.A. 196 of	f 1997 (MC	CL 129.95	5).
We hav	e enclose	ed the	e following	:			Enclosed		Be varded	Not Required
			s and recon		ons.		✓			L
Reports	on individ	dual f	ederal finar	icial assis	tance programs ((program audits).				✓
	Audit Repo									✓
Certified BER1	Public Accou	intant	(Firm Name)	, CPAs				State	ZIP	
1	ddress					City		MI	15"	603

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	
Government-wide Financial Statements: Statement of Net Assets Statement of Activities	11 12
Fund Financial Statements: Governmental Funds: Balance Sheet	13
Governmental Activities	14 15
Fund Balances of Governmental Funds to the Statement of Activities Proprietary Funds: Statement of Net Assets	16 17
Statement of Revenues, Expenses, and Changes in Net Assets	18 19
Fiduciary Fund: Statement of Net Assets	22
Notes to Financial Statements	24
Required Supplemental Information:	
Schedule of Pension Plan Funding Progress Budgetary Comparison Schedule – General Fund Budgetary Comparison Schedule – Special Revenue Fund – Major Street Fund Budgetary Comparison Schedule – Special Revenue Fund – Local Street Fund	44 45 46 47
Other Supplemental Information:	
General Fund: Detailed Schedule of Revenues Detailed Schedule of Expenditures	49 50
Nonmajor Governmental Funds: Combining Balance Sheet	56 57
Fiduciary Fund: Combining Statement of Changes in Assets and Liabilities	58
Schedule of Debt Service Requirements	59
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed	64
in Accordance with Government Auditing Standards	
Management Letter	65



(989) 791-1555 Fax (989) 791-1992



INDEPENDENT AUDITORS' REPORT

To the City Council City of Croswell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Croswell, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Croswell, management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Croswell, Michigan, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

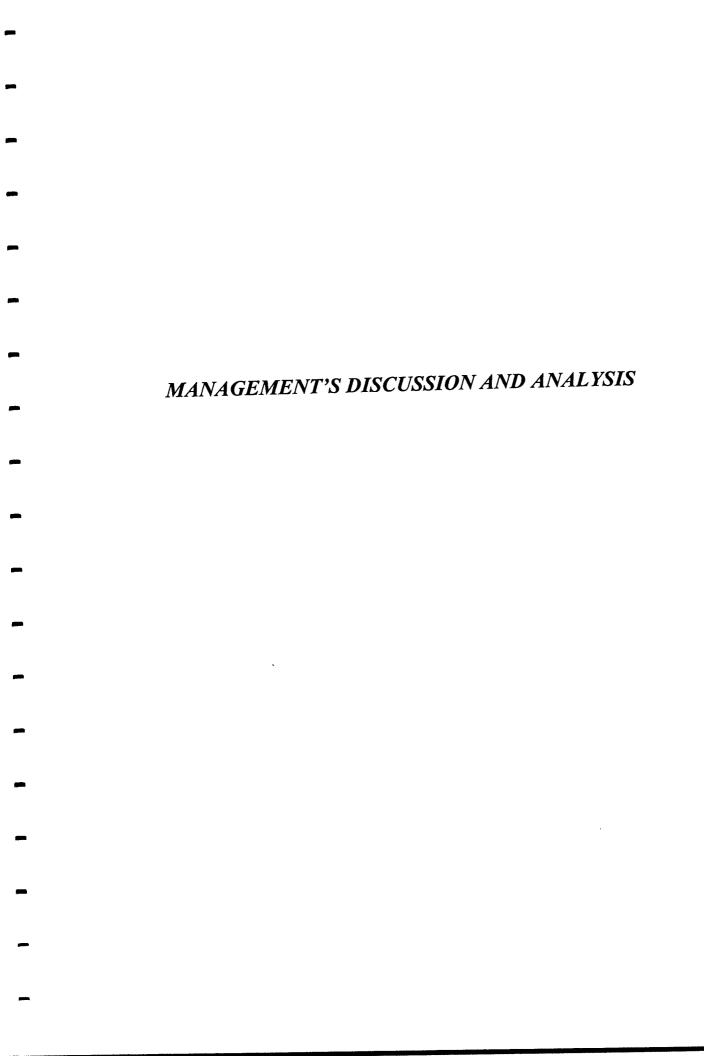
In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2004, on our consideration of the City of Croswell's, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison schedule as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Croswell's basic financial statements. The accompanying other supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, and related statements, as of July 1, 2003.

Berthiume of Co.
October 20, 2004



Overview of the Financial Statements:

The 2004 financial statements of the City of Croswell follow a different format than in previous years. These financial statements have been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

Government-wide Financial Statements:

The government-wide financial statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide financial statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

Governmental Activities – Most of the City's basic services are included here, such as the public safety, public works, and recreation departments, and general administration. Property taxes, Stateshared revenue, charges for services, grants, and transfers provide much of the funding.

Business-type Activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's sewer and water systems are included here.

Component Units – The City includes the Downtown Development Authority, Tax Increment Finance Authority, and Economic Development Corporation in its report.

Fund Financial Statements:

The fund financial statements provide more detailed information about the City's most significant funds — not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

Proprietary Funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund statements, like government-wide statements, provide both short-and long-term financial information.

Fiduciary Funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

Financial Highlights:

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$14,658,958 (net assets), a decrease of \$571,304 from the previous year. Of the \$14.6 million reported in net assets, approximately \$3.7 million may be used to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities decreased \$217,763, or 4.6 percent, while net assets of our business-type activities decreased \$353,541, or 3.4 percent.
- Unrestricted net assets for governmental activities are 11.8 percent of expenses. Unrestricted net assets for business-type activities are 90 percent.
- The General Fund reported expenditures in excess of revenues of \$375,919 before other financing sources and uses for the year. This resulted in a year end fund balance of \$171,515. Of this amount, \$153,673 is unreserved and undesignated, or 10.4 percent of General Fund expenditures.

The City as a Whole:

The City's combined net assets are \$14.6 million at June 30, 2004. Business-type activities make up \$10.1 million and governmental activities make up \$4.5 million of the total. Future reports will provide an analysis of comparative data from the statement of net assets and statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of net assets and condensed statement of activities is not part of the management's discussion and analysis.

City of Croswell - Net Assets:

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$14,658,958 (net assets). However, a major portion (67 percent) of the City's net assets represents its investment in capital assets (e.g., land, buildings and improvements, vehicles and machinery and other equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for spending.

Unrestricted net assets of the City of \$3,735,327 at the end of this year represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Furthermore, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following table depicts a condensed statement of net assets at June 30, 2004.

-	Primary Government				
	Governmental Activities 2004	Business-type Activities 2004	Total		
Assets: Current and other assets Capital assets Total assets	\$ 1,518,614	\$ 3,933,881	\$ 5,452,495		
	3,333,334	7,651,690	10,985,024		
	4,851,948	11,585,571	16,437,519		
Liabilities: Long-term liabilities Other liabilities Total liabilities	222,024	1,255,068	1,477,092		
	84,135	217,334	301,469		
	306,159	1,472,402	1,778,561		
Net assets: Invested in capital assets, net of related debt Restricted Unrestricted Total net assets	3,274,502	6,570,690	9,845,192		
	1,023,717	54,722	1,078,439		
	247,570	3,487,757	3,735,327		
	\$ 4,545,789	\$ 10,113,169	\$ 14,658,958		

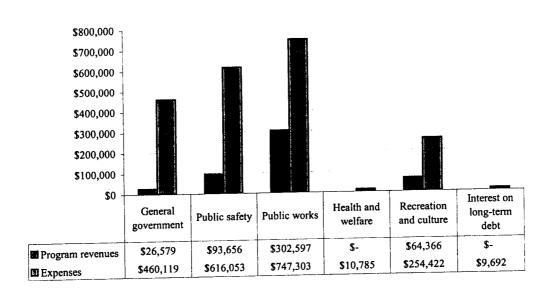
The following table shows the changes in net assets for 2004:

	Primary Government				
	Governmental Activities	I	Business-type Activities	Total	
Revenues:		<u> </u>			
Program revenues:					
Charges for services	\$ 192,475		3,730,238	3,922,713	
Operating grants and contributions	294,723	3	-	294,723	
General revenues:					
Property taxes and payments in lieu of property taxes	682,509		53,059	735,568	
Other taxes	6,031	ĺ		6,031	
State revenue sharing - sales tax	313,530)	-	313,530	
Investment earnings	19,946	5	89,405	109,351	
Miscellaneous	12,604	4	5,000	17,604	
	1,521,818	R	3,877,702	5,399,520	
Total revenues		<u>-</u> -			
Expenses:	460,119	۵	_	460,119	
General government	616,053		_	616,053	
Public safety	747,30		_	747,303	
Public works	10,78			10,785	
Health and welfare	254,42		_	254,422	
Recreation and culture	9,69		_	9,692	
Interest on long-term debt	9,09.	_	460,616	460,61	
Ambulance	-		2,405,290	2,405,29	
Electric	-		743,566	743,56	
Sewer	-		265,774	265,77	
Water		-	203,774	203,11	
Total expenses	2,098,37	4	3,875,246	5,973,62	
Excess (deficiency) of revenues over expenditures	(576,55	6)	2,456	(574,10	
Contributions and Transfers:				. =0	
Contributions and Transceror Contributions to principal of permanent funds	2,79	6	-	2,79	
Transfers	355,99	<u>7</u>	(355,997)		
Total contributions and transfers	358,79	93	(355,997)	2,79	
Increase (decrease) in net assets	(217,76	<u>53</u>)	(353,541)	(571,30	
Net assets, beginning of year	4,763,55	<u>52</u>	10,466,710	15,230,26	
				\$ 14,658,95	

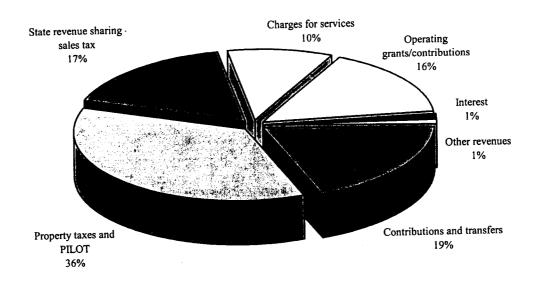
Governmental Activities:

For the year ended June 30, 2004, revenues for the City's governmental activities totaled \$1.5 million. Property taxes and payments in lieu of property taxes accounted for 36 percent of the total revenues, or \$682,509. State-shared revenues were 17 percent, or \$313,530; these revenues continue to be a concern as to future funding levels.

Governmental Activities Program Revenues and Expenses



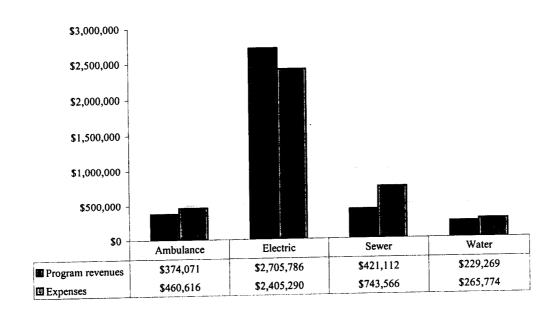
Governmental Activities Revenue by Source



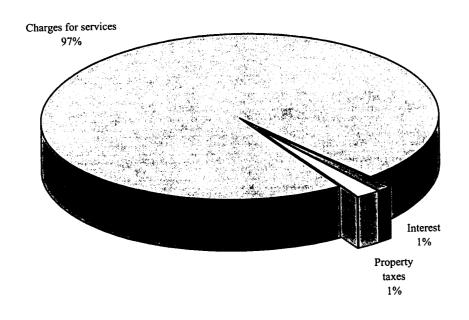
Business-type Activities:

For the year ended June 30, 2004, revenues for business-type activities were \$3.8 million. Charges for services were 97 percent of gross revenues, or \$3.7 million.

Business-type Activities
Program Revenues and Expenses



Business-type Activities Revenue by Source



The City has four business type-activities: ambulance, electric, sewer, and water systems. In total, these four activities generated \$3.7 million in charges for services, and incurred \$3.8 million in expenses. In addition, general revenues for business-type activities were approximately \$147,000. There was \$355,997 in transfers to other funds. Of these transfers, \$130,000 was from the Electric fund to the Ambulance fund to cover addition salary costs as a result of contract negotiations. The City's business-type activities experienced a decrease in net assets of approximately \$353,000 for the year.

Capital Assets and Debt Administration:

At the end of the fiscal year 2004, the City has \$19,353,864 invested, before depreciation, in a wide range of capital assets, including land, land improvements, buildings, equipment, sewer and water lines, and electric system. In addition, for the first time, the City is reporting infrastructure assets if any were acquired since July 1, 2003. Infrastructure assets include roads, bridges, sidewalks, storm drains, and other immovable assets.

Debt of \$58,832 related to the construction and acquisition of the above-mentioned capital assets is reported as a liability in the governmental activities in the statement of net assets.

Debt related to the sewer system totaling \$1,081,000 is recorded as a liability in the business-type activities in the statement of net assets.

The City's Funds:

The fund financial statements provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities, such as special property tax millages. The City's major governmental funds for 2004 include the General Fund, Major Street Fund, and Local Street Fund.

The City's governmental funds reported combined fund balance of \$1,285,470 for this year, a decrease of approximately \$91,000 from last year. Included in this decrease is the General Fund's excess of expenditures over revenues of approximately \$375,000.

General Fund Budgetary Highlights

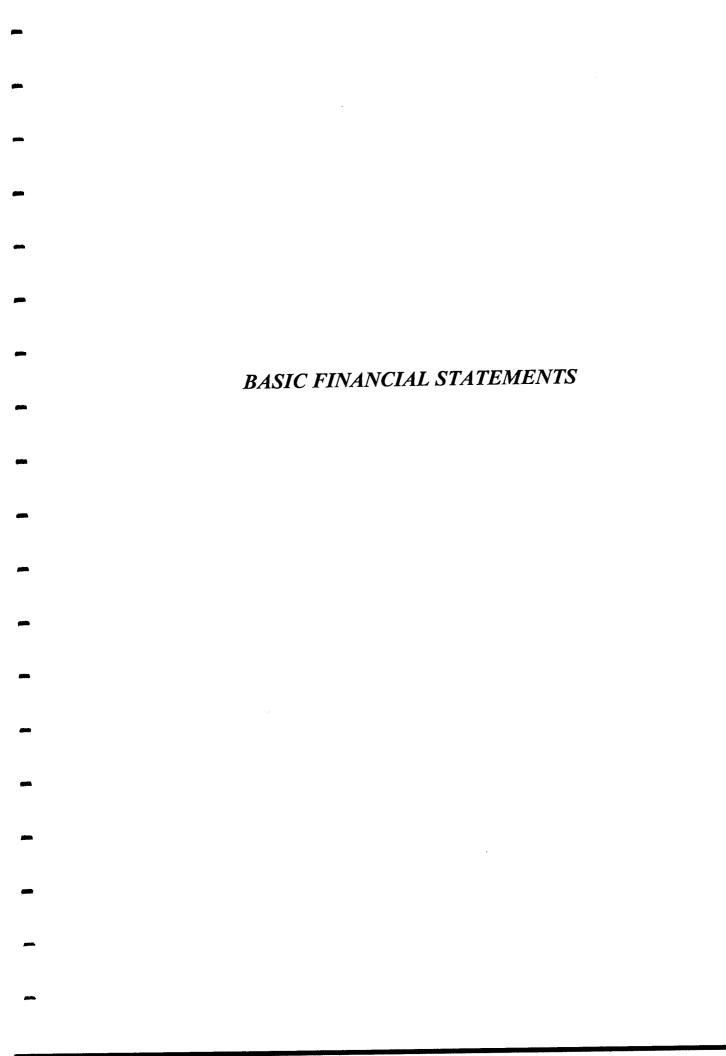
Differences between the original and final amended budgets for revenues and expenditures were relatively minor, except the recreation capital outlay budget was substantially reduced to reflect lower amounts actually expended.

Economic Factors:

The City continues to maintain positive fund balances in each of its funds. However, concerns arise when considering the revenues and expenses that the City is facing in upcoming years. The major sources of revenue for the City are property taxes, State-shared revenues, and charges for services. These sources have certain limitations outside of the City's control – taxable value of property in the City has remained flat, resulting in small increases in property taxes; the State of Michigan has experienced budget deficits and has reduced revenue-sharing payments to local governments to help in reducing their deficit; and the economy has restricted the City in what it can charge its customers. In comparison, certain expenses continue to rise at a rate higher than inflation (e.g., health care). We are continuing to plan for the long term, and will continue to balance the budgets through controls over spending, while striving to provide the City's residents with the same level of service to which they have become accustomed.

Contacting the City's Financial Management:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact David Tait, City Manager, 100 N. Howard Avenue, Croswell Michigan, 48422.



STATEMENT OF NET ASSETS

June 30, 2004

	Pri				
	Governmental Business-type Activities Activities		Total	Component Units	
Assets:	\$ 805,721	\$ 3,117,136	\$ 3,922,857	\$ 680,082	
Cash and cash equivalents	454,586	\$ 5,117,150 -	454,586	-	
Investments	434,580 184,557	505,240	689,797	2,250	
Receivables	47,590	(47,590)	-	-,	
Internal balances	26,160	32,815	58,975	-	
Prepaid items and other assets	20,100	271,558	271,558	-	
Inventory	-	54,722	54,722	_	
Restricted cash and cash equivalents	-	34,722	31,722		
Capital assets:	135,539	165,055	300,594	119,091	
Nondepreciable capital assets	3,197,795	7,486,635	10,684,430	462,163	
Depreciable capital assets, net	3,197,775	7,100,022			
Total assets	4,851,948	11,585,571	16,437,519	1,263,586	
Liabilities:			201.460	E1 156	
Accounts payable and accrued expenses	84,135	217,334	301,469	54,456	
Long-term liabilities:			52.022	61.045	
Due within one year	38,832	15,000	53,832	61,245	
Due in more than one year	183,192	1,240,068	1,423,260	263,255	
Total liabilities	306,159	1,472,402	1,778,561	378,956	
2.55					
Net assets:	3,274,502	6,570,690	9,845,192	256,754	
Invested in capital assets, net of related debt	3,2, 1,0 =				
Restricted for:	_	54,722	54,722	-	
Debt service	353,236	· <u>-</u>	353,236	-	
Streets Nonexpendable trust principal	670,481	-	670,481	-	
Unrestricted	247,570	3,487,757	3,735,327	627,876	
Total net assets	\$ 4,545,789	\$ 10,113,169	\$ 14,658,958	\$ 884,630	

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

		Program Revenues
	Expenses	Operating Charges for Grants and Net (Expense) Services Contributions Revenue
Functions/Programs PRIMARY GOVERNMENT: Governmental activities: General government Public safety Public works Health and welfare Recreation and culture	\$ 460,119 616,053 747,303 10,785 254,422 9,692	77,310 16,346 (522,397) 82,140 220,457 (444,706) 55 - (10,785) 12 6,446 57,920 (190,056)
Interest on long-term debt Total governmental activities	2,098,374	
Business-type activities: Ambulance Electric Sewer Water Total business-type activities Total primary government	460,616 2,405,290 743,566 265,774 3,875,246 \$ 5,973,620	90 2,705,786 - 300,496 66 421,112 - (322,454 74 229,269 - (36,505 46 3,730,238 - (145,008
COMPONENT UNITS: Downtown development authority Tax increment finance authority Economic development corporation Total component units	\$ 52,562 232,354 2,880 \$ 287,790	54 - (232,354 80 35,730 - 32,850

	Pri	nt			
	Business-				
	Governmental Activities	• • • • • • • • • • • • • • • • • • • •		Component Units	
Changes in net assets: Net (Expense) Revenue	\$ (1,611,176)	\$ (145,008)	\$ (1,756,184)	\$ (252,066)	
General revenues:					
Taxes:	486,541	_	486,541	378,755	
Property taxes, levied for general purpose	460,541	53,059	53,059	-	
Property taxes, levied for debt service	112,085	-	112,085	-	
Property taxes, levied for local streets	83,883	_	83,883	-	
Payment in lieu of property taxes Franchise taxes	6,031	-	6,031	-	
Grants and contributions not restricted to	2,02				
specific programs	313,530	-	313,530	-	
Unrestricted investment earnings	19,946	89,405	109,351	4,880	
Miscellaneous	12,604	5,000	17,604	18,860	
Contributions to principal of permanent funds	2,796	-	2,796	-	
Transfers	355,997	(355,997)			
•••••					
Total general revenues, contributions, special items and transfers	1,393,413	(208,533)	1,184,880	402,495	
Change in net assets	(217,763)	(353,541)	(571,304)	150,429	
Net assets, beginning of year	4,763,552	10,466,710	15,230,262	734,201	
Net assets, end of year	\$ 4,545,789	\$ 10,113,169	<u>\$ 14,658,958</u>	\$ 884,630	

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

	·	General Fund	Major Street Fund		Local Street Fund		onmajor vernmental Funds	Go	Total vernmental Funds
Assets: Cash and cash equivalents Investments Taxes receivable Accounts receivable Due from other governmental units Due from other funds Prepaid expenditures Total assets	\$ 	92,566 - 9,858 10,923 104,014 9,210 17,842 244,413	\$ 140,814 - - 26,304 - 3,092 170,210	\$ 	179,975 - - - 8,777 - 3,092 191,844	\$ - \$_	291,752 454,586 - 24,681 120 513 771,652	\$ 	705,107 454,586 9,858 10,923 163,776 9,330 24,539 1,378,119
	<u> </u>		 						
Liabilities and Fund Balances: Liabilities: Accounts payable and accrued expenses Due to other governmental units Due to other funds Deposits payable Total liabilities	\$	62,074 3,209 120 7,495 72,898	\$ 1,269 - - - - 1,269	\$	1,365 - - - - 1,365	\$	3,117 - 14,000 - 17,117	\$	67,825 3,209 14,120 7,495 92,649
Fund balances: Reserved for: Prepaid expenditures Nonexpendable trust principal Unreserved: Undesignated, reported in:		17,842 -	3,092		3,092		513 670,481		24,539 670,481
General fund Special revenue funds		153,673	 - 165,849		187,387		83,541	_	153,673 436,777
Total fund balances	_	171,515	 168,941		190,479		754,535	_	1,285,470
Total liabilities and fund balances	<u>\$</u>	244,413	\$ 170,210	<u>\$</u>	191,844	\$	771,652	\$	1,378,119

RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2004

Total fund balances for	or governmental funds
-------------------------	-----------------------

\$1,285,470

Total net assets reported for governmental activities in the statement of of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Governmental capital assets 3,313,065
Less accumulated depreciation (960,925) 2,352,140

Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds:

The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.

1,111,371

Net assets of governmental activities

\$4,545,789

The accompanying notes are an integral part of these financial statements.

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2004

	General Fund	Major Street Fund	Local Street Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				•	e 692 500
Taxes	\$ 570,424	\$ -	\$ 112,085	\$ -	\$ 682,509 23,442
Licenses and permits	23,442	-	- 	6,278	538,336
State grants	316,601	154,982	60,475	51,642	136,468
Contributions from other units	79,826	-	5,000	4,984	90,499
Charges from services	85,515	-	-	1,462	5,774
Fines and forfeits	4,312	1 000	1,099	16,795	27,394
Interest and rents	8,402	1,098	1,099	4,255	19,540
Other revenue	15,285				
Total revenues	1,103,807	156,080	178,659	85,416	1,523,962
Expenditures:					
Current:	457.005		_	_	457,005
General government	457,005 534,673	-	_	-	534,673
Public safety	•	164,512	169,068	_	675,381
Public works	341,801 10,485	104,512	100,000	•	10,485
Health and welfare	65,339	_	_	158,588	223,927
Recreation and culture	42,697	<u>-</u>	_	-	42,697
Capital outlay	42,097	_			,
Debt service:	20,000	_	_	_	20,000
Principal	7,726	_	_	_	7,726
Interest and charges	7,720				
Total expenditures	1,479,726	164,512	169,068	158,588	1,971,894
Excess (deficiency) of revenues over expenditures	(375,919)	(8,432)	9,591	(73,172)	(447,932)
Other financing sources (uses):				99,281	505,647
Transfers in	406,366	-	-	(43,786)	-
Transfers out	(105,864)	· · · · · · · · · · · · · · · · · · ·	-	(43,780)	(142,030)
Total other financing sources (uses)	300,502	-	,	55,495	355,997
Net change in fund balances	(75,417)	(8,432)	9,591	(17,677)	(91,935)
Fund balances, beginning of year, as restated	246,932	177,373	180,888	772,212	1,377,405
Fund balances, end of year	\$ 171,515	\$ 168,941	\$ 190,479	\$ 754,535	<u>\$ 1,285,470</u>

The accompanying notes are an integral part of these financial statements.

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2004

Net change in fund balances - total governmental funds		\$	(91,935)
Total change in net assets reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	42,697		(50.100)
Less depreciation expense	(112,127)		(69,430)
Repayments of principal on notes and contracts is an expenditure in governmental funds, but the payment reduces long-term liabilities in the statement of net assets.			20,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in compensated absences payable			(35,835)
The net revenue (expense) of the internal service fund is reported with governmental activities.			(40,563)
Change in net assets of governmental activities		<u>\$</u>	(217,763)

STATEMENT OF NET ASSETS

June 30, 2004

		Governmental Activities				
	Ambulance Fund	Electric Fund	Sewer Fund	Water Fund	Total	Internal Service
Assets:						
Current assets:			a 26.208	e 176.660	\$ 3,117,136	\$ 100,614
Cash and cash equivalents	\$ 35,836	\$ 2,878,333		\$ 176,669 27,428	\$ 3,117,136 471,198	J 100,014
Accounts receivable	129,219	255,170	59,381	1,829	3,654	_
Special assessments receivable	-	-	1,825	1,029	15,163	-
Due from other governmental units	15,163	8,275	-	_	8,275	52,380
Due from other funds	13,609	8,609	7,929	2,668	32,815	1,621
Prepaid expenses	13,009	271,558		-	271,558	•
Inventory	193,827	3,421,945	95,433	208,594	3,919,799	154,615
Total current assets	193,827	3,421,943	75,435			
Noncurrent assets:	_	_	54,722	-	54,722	-
Restricted cash and cash equivalents	_	_	7,522	7,703	15,225	-
Special assessments receivable	_		,,	,	•	
Capital assets:	_	_	143,597	21,458	165,055	-
Nondepreciable capital assets	150,446	1,564,435	5,311,219	460,535	7,486,635	981,194
Depreciable capital assets, net Advance receivable from other fund	-	525,367	•		525,367	
Total noncurrent assets	150,446	2,089,802	5,517,060	489,696	8,247,004	981,194
Total assets	344,273	5,511,747	5,612,493	698,290	12,166,803	1,135,809
Total assets						
Liabilities						
Current liabilities:						
Accounts payable	12,938	133,744	18,157	22,510	187,349	5,606
and accrued expenses Due to other funds	3,485	52,380	-	-	55,865	-
	2,102	29,985	-	-	29,985	-
Deposits payable Compensated absences payable	16,057	140,619	17,392	-	174,068	13,662
Current portion of long-term debt		•	15,000		15,000	18,832
Total current liabilities	32,480	356,728	50,549	22,510	462,267	38,100
Noncurrent liabilities:						
Long-term debt	_	-	1,066,000	-	1,066,000	-
Advance payable to other fund			525,367		525,367	-
Total noncurrent liabilities			1,591,367		1,591,367	
Total liabilities	32,480	356,728	1,641,916	22,510	2,053,634	38,100
Net assets:						
Invested in capital assets, net of related debt	150,446	1,564,435	4,373,816	481,993	6,570,690	962,362
*****	150,440	-,50.,.50	,,.	•		
Restricted for:	-	_	54,722	-	54,722	-
Debt service Unrestricted	161,347	3,590,584	(457,961)	193,787	3,487,757	135,347
Total net assets	\$ 311,793	\$ 5,155,019	\$ 3,970,577	\$ 675,780	\$ 10,113,169	\$ 1,097,709

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Year Ended June 30, 2004

	Major Enterprise Funds							
- -	Ambulance Fund	Electric Fund	Sewer Fund	Water Fund	Total	Internal Service Fund		
Operating revenues:	\$ 374,071	\$ 2,693,211	\$ 419,400	\$ 228,516	\$ 3,715,198	\$ 251,492		
Charges for services	5 374,071	4,202	1,712	753	6,667	-		
Penalties Other	-	8,373	-	-	8,373	6,556		
Total operating revenues	374,071	2,705,786	421,112	229,269	3,730,238	258,048		
Operating expenses:								
Personnel	286,990	374,854	217,093	45,886	924,823	71,067		
Fringe benefits	100,007	124,999	102,560	40,199	367,765	23,553		
Supplies	20,361	106,050	22,519	24,991	173,921	66,596		
Property tax equivalents	5,628	61,295	12,520	4,281	83,724	-		
Contracted services	2,115	17,422	19,017	44,231	82,785	4,110		
Purchase of power	-	1,492,068	-	-	1,492,068	-		
Telephone	2,081	1,970	4,545	408	9,004	1,006		
Mileage	413	1,364	798	-	2,575	212		
Dues and membership fees	570	5,090	2,039	1,066	8,765	-		
Education and training	880	1,305	970	735	3,890			
Printing and publishing	40	648	345	1,964	2,997			
Insurance	3,484	17,258	9,660	3,330	33,732			
Utilities	4,632	10,458	53,716	30,442	99,248			
Repair and maintenance	10,322	6,853	7,362	1,965	26,502			
Equipment rental	500	35,099	29,148	39,187	103,934			
Other services and supplies	376	817	825		2,018			
Depreciation	22,217	147,740	199,384	27,089	396,430	108,100		
Total operating expenses	460,616	2,405,290	682,501	265,774	3,814,181	315,575		
Operating income (loss)	(86,545)	300,496	(261,389)	(36,505)	(83,943	(57,527)		
Non-operating revenues								
(expenses):					£2.0£0			
Property taxes	-	-	53,059		53,059			
Interest income	70	86,446	1,134	•	89,405			
Other revenue Interest expense	5,000		(61,065)	·	5,000 (61,065			
Total non-operating revenues (expenses)	5,070	86,446	(6,872	1,755	86,399	3,302		

continued

The accompanying notes are an integral part of these financial statements.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS, CONTINUED

Year Ended June 30, 2004

		Governmental Activities				
	Ambulance Fund	Electric Fund	Sewer Fund	Water Fund	Total	Internal Service Fund
Net income (loss) before operating transfers	(81,475)	386,942	(268,261)	(34,750)	2,456	(54,225)
Operating transfers: Transfer from other funds Transfer to other funds	130,000	30,369 (566,366)	50,000	-	210,369 (566,366)	
Total operating transfers	130,000	(535,997)	50,000		(355,997)	
Net income (loss)	48,525	(149,055)	(218,261)	(34,750)	(353,541)	(54,225)
Net assets, beginning of year, as restated	263,268	5,304,074	4,188,838	710,530	10,466,710	1,151,934
Net assets, end of year	\$ 311,793	\$ 5,155,019	\$ 3,970,577	\$ 675,780	\$ 10,113,169	\$ 1,097,709

STATEMENT OF CASH FLOWS

Year Ended June 30, 2004

			Governmental Activities			
	Ambulance Fund	Electric Fund	Sewer Fund	Water Fund	Total	Internal Service
Cash flows from operating activities:						
Cash received from customers	\$ 371,485	\$ 2,744,217	\$ 419,572	\$ 229,154	\$ 3,764,428	\$ 263,048
Cash payments to employees	(301,626)	(315,514)	(211,040)	(46,097)	(874,277)	(70,599)
Cash payments to suppliers for goods and services	(162,146)	(1,913,161)	(268,655)	(176,531)	(2,520,493)	(129,086)
Net cash provided (used) by operating activities	(92,287)	515,542	(60,123)	6,526	369,658	63,363
Cash flows from non-capital						
financing activities:						
Advance from (to) other funds	-	(184,000)	184,000	-	-	
Operating transfers in	130,000	30,369	50,000	-	210,369	
Operating transfers out	-	(566,366)		-	(566,366)	-
Net cash provided (used) by						
non-capital financing activities	130,000	(719,997)	234,000		(355,997)	
Cash flows from capital and related						
financing activities:						
Property taxes	-	-	53,059	-	53,059	-
Acquisition and construction of						
capital assets	(38,510)	-	(136,512)	-	(175,022)	-
Principal payments	-	-	(13,000)	-	(13,000)	-
Interest paid Gain on sale of assets	5,000		(61,065)	-	(61,065) 5,000	-
Net cash provided (used) by capital and related						
financing activities	(33,510)	-	(157,518)		(191,028)	
Cash flows from investing activities: Interest received	70	86,446	1,134	1,755	89,405	652
Net cash provided (used) by investing activities	70	86,446	1,134	1,755	89,405	652

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2004

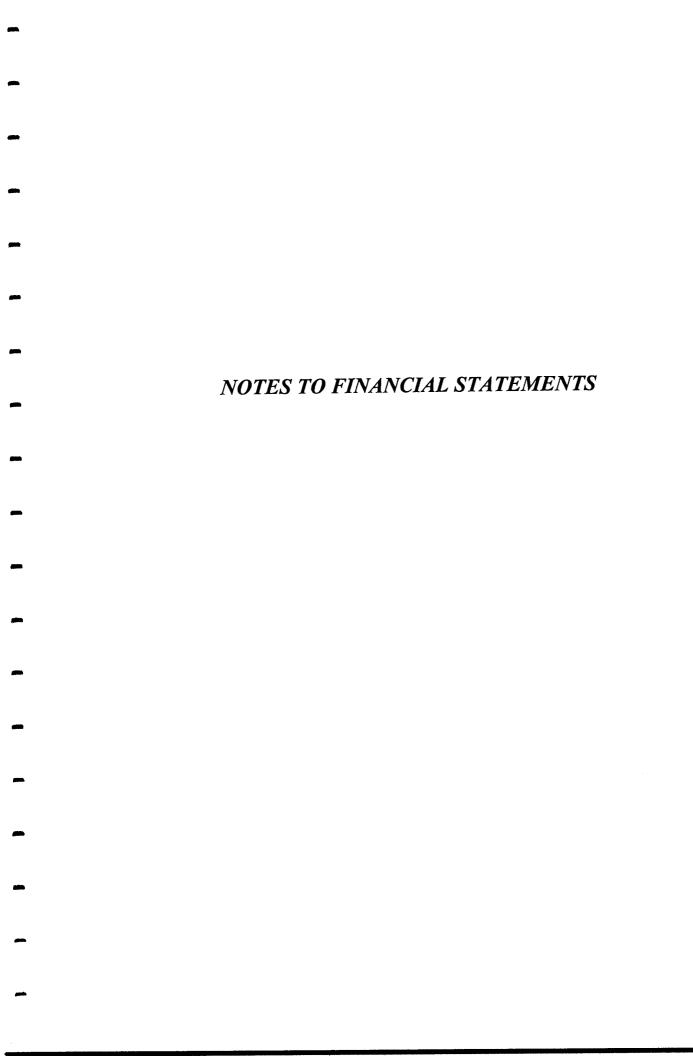
Net increase (decrease) in cash		Fund	Fund	Water Fund	Total	Internal Service
and cash equivalents	4,273	(118,009)	17,493	8,281	(87,962)	64,01
Cash and cash equivalents, beginning of year	31,563	2,996,342	63,527	168,388	3,259,820	
Cash and cash equivalents, end of year	\$ 35,836	\$ 2,878,333	\$ 81,020	\$ 176,669	\$ 3,171,858	36,599 100,614
Reconciliation of operating income (loss) to net cash from operating activities:					The state of the s	
Operating income (loss)						
Adjustments:	\$ (86,545) \$	300,496	\$ (261,389)	\$ (36,505)	\$ (83,943) \$	(57,527
Depreciation	22,217	147,740	199,384	27,089	396,430	108,100
Decrease (increase) in current assets:						
Accounts receivable Special assessments receivable	(6,653)	(17,279)	(3,551)	(1,758)	(29,241)	-
Due from other governmental units	921	•	2,011	1,643	3,654	-
Due from other funds	3,146	54,000	-	•	921	-
Inventory	-	(31,555)	-	•	57,146	5,000
Prepaid expenses	(10,687)	(2,881)	(2,610)	(410)	(31,555)	-
ncrease (decrease) in current liabilities:	(,,	(2,001)	(2,010)	(419)	(16,597)	5,328
Accounts payable	1,465	21,586	(21)	16,687	20	
Accrued expenses	3,437	2,885	2,016	(211)	39,717	1,994
Due to other funds	(1,515)	(17,615)	2,010	(211)	8,127	468
Deposits payable	,	1,710	-		(19,130)	
Deferred revenue Compensated absences payable	(18,073)	56,455	4,037	-	1,710 - 42,419	-
Net cash provided (used) by					, /1.7	-

FIDUCIARY FUNDS

STATEMENT OF NET ASSETS

June 30, 2004

	Agency Funds
Assets: Cash and cash equivalents	\$ 79,399
Total assets	79,399
Liabilities: Due to other governmental units	79,399
Total liabilities	79,399
Net Assets: Unrestricted	<u>\$</u>



NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Croswell, Sanilac County, Michigan, was incorporated in 1847 under provisions of the Home Rule Act of the State of Michigan. The City operates under a council form of government and provides the following services: public safety, highways and streets, sanitation, community service, and general administrative services to approximately 2,500 residents.

The accounting policies of the City of Croswell conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity:

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the City and its component units. The component units discussed below are included in the City's reporting entity because of their operational or financial relationship with the City.

Discretely Presented Component Units - The component units columns in the combined financial statements include the financial data of the City's three component units. These units are reported in a separate column to emphasize that they are legally separate from the City. The component units are described as follows:

Tax Increment Financing Authority - The members of the governing board of the Tax Increment Financing Authority are appointed by the City Council.

Economic Development Corporation - The members of the governing board of the Economic Development Corporation are appointed by the City Council.

Downtown Development Authority - The members of the governing board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority.

Basis of Presentation - Fund Accounting:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate.

Basis of Accounting:

GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The statement of net assets and the statement of activities report information on all of the nonfiduciary activities of the primary government and its component units. These statements distinguish between activities that are governmental and those that are business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

June 30, 2004

The statement of net assets presents governmental activities on a consolidated basis, using the economic resources measurement focus and accrual basis of accounting. This method recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts (1) invested in capital assets, net of related debt, (2) restricted net assets, and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The statement of activities reports both the gross and net cost of each of the City's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources and federal sources, interest income, etc.). The City does not allocate indirect costs. In creating the government-wide financial statements the City has eliminated interfund transactions.

The government-wide focus is on the sustainability of the City as an entity and the change in the City's net assets resulting from current year activities.

FUND FINANCIAL STATEMENTS:

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Fiduciary fund statements also are reported using the economic resources measurement focus and the accrual basis of accounting.

The City reports the following major governmental funds:

General Fund – The General Fund is the primary operating fund of the City. It is used to account for all financial resources, except for those required to accounted for in another fund.

June 30, 2004

Major Street Fund – The Major Street Fund is used to account for the maintenance and construction of the City's major street system.

Local Street Fund – The Local Street Fund is used to account for the maintenance and construction of the City's local street system.

The City reports the following major enterprise funds:

Ambulance Fund – The Ambulance Fund is used to account for funds raised to provide ambulatory services.

Electric Fund – The Electric Fund is used to account for the revenues and expenses for the operation of an electric system.

Sewer Fund – The Sewer Fund is used to account for the revenues and expenses for the operation of a sewer system.

Water Fund – The Water Fund is used to account for the revenues and expenses for the operation of a water system.

Assets, Liabilities and Equity:

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, certificates of deposit and short term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – Generally, outstanding amounts owed between funds are classified as "due from/to other funds". These amounts are caused by transferring revenues and expenses between funds to get them into the proper reporting fund. These balances are paid back as cash flow permits.

Property Taxes – Property taxes attach as an enforceable lien on property as of December 31. The related property taxes are billed on the following July 1, are due on August 31 with the final collection date of February 28 before they are added to the county tax rolls.

The 2003 ad valorem taxable valuation of the City totaled \$37,453,498 and the industrial facilities taxable valuation of the City totaled \$5,367,660, on which taxes levied consisted of 14.9549 mills for the City's operating purposes, 1.7500 mills for local streets, and 1.7500 for sewer debt.

The delinquent real property taxes of the City are purchased by Sanilac County. The delinquent real property taxes are received soon enough after year end to be recorded as revenue in the current year.

Inventories and Prepaid Items – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both government-wide and fund financial statements.

June 30, 2004

Capital Assets — Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair market value at the date of donation. The City defines capital assets as assets with an initial individual cost in excess of \$1,000. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. Public domain (infrastructure) assets (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the government) are not capitalized. Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	39-55 years
Vehicles	5-15 years
Machinery and other equipment	5-55 years

Compensated Absences – It is the City's policy to permit employees to accumulate earned but unused sick and vacation days. Under the City's policy, employees earn benefits based on time of service with the City. The maximum accumulated payout at termination of unused sick hours is 960 and the maximum accumulated payout at termination of unused vacation hours is 240. A liability is recorded when incurred in the government-wide financial statements and the proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only when they have matured or come due for payment – generally when an individual's employment has terminated as of year end.

Long-term Obligations — In the government-wide financial statements and the proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Eliminations and Reclassifications:

In the process of aggregating data for the statement of net assets and the statement of activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

June 30, 2004

Accounting Change:

GASB Statement No. 34 - Effective July 1, 2003, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments. Changes to the financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.

Government-wide financial statements prepared using full accrual accounting for all of the City's activities has been provided.

Capital assets in the governmental activities column of the statement of net assets include a beginning balance as of July 1, 2003 totaling \$5,124,640, of which \$3,023,803 was previously reported in the General Fixed Assets Account Group and \$1,854,274 was reported in the internal service fund. Capital assets at July 1, 2003 have been adjusted by \$246,563 to reflect the historical cost of the City's capital assets at that date. In addition, the governmental activities column includes notes and other long-term obligations totaling \$187,357 previously reported in the General Long-term Debt Account Group.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information:

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- 1. A proposed operating budget by fund is submitted to the City Council. The operating budget includes proposed expenditures and the means of financing them.
- 2. A public hearing is conducted to obtain taxpayer comments.
- 3. Prior to July 1, the budget is legally enacted by adoption of the City Council.
- 4. Any revision that alters the total expenditures of any fund must be approved by the City.
- 5. Formal budgetary integration is employed as a management control device during the year for all funds.
- 6. Governmental fund budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. A comparison of actual results of operations to the General Fund and major Special Revenue Funds budgets as originally adopted and amended by the City Council is included in the required supplemental information.
- 7. All annual appropriations lapse at fiscal year end.

Excess of Expenditures Over Appropriations in Budgeted Funds:

During the year, the City did not incur expenditures that were materially in excess of the amounts budgeted.

June 30, 2004

State Construction Code Act:

The City oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus generated since January 1, 2000 is as follows:

Cumulative surplus at July 1, 2003		\$	-
Current year building permit revenue			15,183
Related expenses:			
Direct costs 2	21,776		
Estimated indirect costs			
Total construction code expenses			21,776
Cumulative surplus at June 30, 2004		<u>\$</u>	-

In accordance with the act, no reservation of fund balance in the General Fund is required to be reserved for future construction code activities.

NOTE 3: DEPOSITS AND INVESTMENTS

The City's deposits and investments at June 30, 2004 are included in the statement of net assets under the following categories:

	 vernmental Activities		usiness-type <u>Activities</u>		otal Primary Sovernment	C	omponent <u>Units</u>
Cash and cash equivalents	\$ 805,721	\$	3,117,136	\$	3,922,857	\$	680,082
Investments	454,586		-		454,586		-
Restricted cash and cash equivalents	 -	_	54,722		54,722		
	\$ 1,260,307	\$	3,171,858	<u>\$</u>	4,432,165	\$	680,082

Deposits:

The breakdown between deposits and investments for the City is as follows:

	Primary <u>Government</u>			Component <u>Units</u>		
Bank deposits (checking accounts, savings accounts, money markets, and certificates of deposit) Investments in securities, mutual funds, and	\$	3,976,819	\$	680,082		
similar vehicles Petty cash and cash on hand		454,586 760		-		
Total	<u>\$</u>	4,432,165	<u>\$</u>	680,082		

June 30, 2004

The deposits of the primary government and component unit were reflected in the accounts of financial institutions (without recognition of checks written but not yet cleared or of deposits in transit) at \$4,715,074, of which \$339,037 is covered by federal depository insurance and the remainder was uninsured and uncollaterized. The City believes that due to the dollar amount of cash deposits and the limits of the FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk each institution; only those institutions with an acceptable estimated risk level are used as depositories. To the extent that cash from various funds has been pooled, related investment income is allocated to each fund based on relative participation in the pool.

Investments:

State statutes authorize the City to invest surplus funds in certificates of deposit, savings accounts and deposit accounts with banks and savings and loan associations which are members of FDIC, credit unions which are insured by NCUA, bonds, bills or notes of the U.S., commercial paper rated within the 3 highest classifications established, U.S. or federal agency obligation repuchase agreements, bankers' acceptances and mutual funds composed entirely of the aforementioned investments that are legal for direct investment by a City.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, or securities held by the City or its agent in the City's name;

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

Category 3 – Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

		Category					
	1	2	3	Amount (Fair Value)			
Primary government: U.S. government securities	<u>\$</u>	\$ 442,190	\$ -	\$ 442,190			
Uncategorized as to risk: Mutual funds				12,396			
Total investments				\$ 454,586			

June 30, 2004

NOTE 4: BOND RESERVES AND RESTRICTED ASSETS

The ordinance authorizing issuance of the 1991 Sewer Supply System Revenue Bonds required that specific accounts be established and monies deposited as follows:

Receiving Account - All receipts are initially deposited into this account.

Operation and Maintenance Account - Quarterly transfers are to be made to cover upcoming operating expenses.

Bond and Interest Redemption Account - Quarterly transfers are to be made equal to 1/2 of the next interest payment due plus 1/4 of the next principal payment due.

Bond Reserve Account - Excess funds of up to \$6,252 per year are to be transferred to this account until \$62,500 is accumulated.

At June 30, 2004, the City had established these accounts and had restricted cash as follows:

	Requirements					Amount Funded_		
		July 1, 2003	Ado	litions	J	June 30, <u>2004</u>	C	estricted Cash and Equivalents
Sewer Fund: Bond Reserve Bond and Interest Redemption	\$ <u>\$</u>	62,500 15,788 78,288	\$ <u>\$</u>	92 92	\$ \$	62,500 15,880 78,380	\$ <u>\$</u>	54,722 - 54,722

June 30, 2004

NOTE 5: CAPITAL ASSETS

	Balance July 1, 2003 Additions		Disposals and Adjustments	Balance June 30, 2004
Governmental Activities:				
Capital assets not being depreciated: Land	<u>\$ 135,539</u>	9 \$ -	\$ -	\$ 135,539
Capital assets being depreciated	60.40	10,000		79,421
Land improvements	69,42		-	2,568,237
Buildings and improvements	2,568,233		48,005	1,136,048
Vehicles	1,071,015 1,280,428		6,770	1,323,470
Machinery and other equipment				
Total capital assets being depreciated	4,989,10	1 172,850	54,775	5,107,176
Accumulated depreciation	1,728,560	220,227	39,412	1,909,381
Net capital assets being depreciated	3,260,53	(47,377)	15,363	3,197,795
Net governmental activities capital assets	3,396,074	4 (47,377)	15,363	3,333,334
Business-type Activities				
Ambulance capital assets				
Capital assets being depreciated	a 70 0 0 0	o . m	¢.	\$ 73,860
Buildings and improvements	\$ 73,860 130,283		\$ - 42,285	125,488
Vehicles	112,38	*	72,203	113,405
Machinery and other equipment				
Total capital assets being depreciated	316,52	38,510	42,285	312,753
Accumulated depreciation	182,37	22,217	42,285	162,307
Net ambulance capital assets	134,153	16,293		150,446
Electric capital assets				
Capital assets being depreciated		_		520 265
Buildings and improvements	528,265		-	528,265 1,508,742
Machinery and other equipment	1,508,743		-	2,094,481
Distribution system	2,094,48			
Total capital assets being depreciated	4,131,48		-	4,131,488
Accumulated depreciation	2,419,31	147,740	-	2,567,053
Net electric capital assets	1,712,17	5 (147,740)	-	1,564,435

June 30, 2004

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Business-type Activities, continued				
Sewer capital assets Capital assets not being depreciated Land	143,597			143,597
Capital assets being depreciated Buildings and improvements	2,086,152	_	_	2,086,152
Machinery and other equipment	935,429	3,802	-	939,231
Distribution system	5,318,870	-	-	5,318,870
Total capital assets being depreciated	8,340,451	3,802	-	8,344,253
Accumulated depreciation	2,833,651	199,383		3,033,034
Net capital assets being depreciated	5,506,800	(195,581)	-	5,311,219
Net sewer capital assets	5,650,397	(195,581)		5,454,816
Water capital assets				
Capital assets not being depreciated Land	\$ 21,458	\$	<u>\$</u>	\$ 21,458
Capital assets being depreciated				152.004
Buildings and improvements	153,884	-	-	153,884 186,710
Machinery and other equipment	186,710	-	- -	817,006
Distribution system	817,006			017,000
Total capital assets being depreciated	1,157,600	-	-	1,157,600
Accumulated depreciation	669,976	27,089		697,065
Net capital assets being depreciated	487,624	(27,089)		460,535
Net water capital assets	509,082	(27,089)		481,993
Net business-type activities capital assets	8,005,807	(354,117)	-	7,651,690
Net primary government capital assets	<u>\$ 11,401,881</u>	\$ (401,494)	\$ 15,363	\$ 10,985,024

June 30, 2004

		Balance July 1, 2003	Ad	lditions	a	posals and stments	Balance June 30, 2004
Component Units: Land Comital assets being depreciated:	\$	119,091	\$	-	\$	-	\$ 119,091
Capital assets being depreciated: Buildings and improvements Machinery and other equipment	-	22,432		428,056 14,652		-	 428,056 37,084
Total capital assets being depreciated		22,432 688	4	442,708 2,289		-	465,140 2,977
Accumulated depreciation Net capital assets being depreciated		21,744		440,419		-	 462,163
Net component units capital assets	\$	140,835	\$ 4	440,419	<u>\$</u>	-	\$ 581,254

Depreciation expense was charged to programs of the primary government as follows:

Public works		121,322
Health and welfare		300
Recreation and culture		30,343
Total governmental activities	\$	220,227
Business-type Activities:		
Ambulance	\$	22,217
Electric		147,740
Sewer		199,383
Water		27,089
Total business-type activities	\$	396,429
Component Units:		
DDA	<u>\$</u>	2,289
Total component units	\$	2,289

NOTE 6: LONG-TERM DEBT

The City issues bonds, notes, and other contractual commitments to provide for the acquisition and construction of major capital facilities and the acquisition of certain equipment. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service. Other long-term obligations include compensated absences.

June 30, 2004

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities:						
2001 Note Payable - Fire Truck						
Amount of Issue - \$100,000						
Maturing through November 2006	5.10%	\$20,000	\$ 60,000	\$ (20,000)	\$ 40,000	\$ 20,000
2001 Note Payable - Vactor Machine						
Amount of Issue - \$53,000						
Maturing through February 2005	6.75%	18,832	36,474	(17,642)	18,832	18,832
Compensated absences			127,357	35,835	163,192	
Total governmental activities			223,831	(1,807)	222,024	38,832
Business-type Activities						
Revenue bonds - 1991 Sewage						
Disposal System						
Amount of Issue - \$950,000						
Maturing through May 2032	5.75%	12,000-63,000	907,000	(11,000)	896,000	12,000
Revenue bonds - 1994 Sewage						
Disposal System						
Amount of Issue - \$950,000					40# 000	2.000
Maturing through May 2032	5.00%	3,000-10,000	187,000	(2,000)	185,000	3,000
Compensated absences			151,581	22,487	174,068	-
Total business-type activities			1,245,581	9,487	1,255,068	15,000
Total primary government			\$ 1,469,412	\$ 7,680	<u>\$ 1,477,092</u>	\$ 53,832
Component Units:						
General obligation bond - 1992 Tax						
Increment Finance Bond						
Amount of Issue - \$200,000						
Maturing through May 2004	6.29%	165,000	165,000	(165,000)	-	•
Promissory Note - Building						
Amount of Issue - \$324,500					201.700	C1 045
Maturing through June 2009	2.86%	61,245-68,661		324,500	324,500	61,245
Total component units			\$ 165,000	\$ 159,500	\$ 324,500	\$ 61,245

June 30, 2004

Annual debt service requirements to maturity for the above bond and contractual obligations are as follows:

Year Ended		Gov	ernn	nental Activ	ities			Bu	sine	ss-type Activ	ities	
June 30,	P	rincipal		Interest	_	Total	Principal		_	Interest		Total
2005	\$	38,832	\$	3,360	\$	42,192	\$	15,000	\$	60,425	\$	75,425
2006		20,000		1,044		21,044		16,000		59,556		75,556
2007		-				-		16,000		58,659		74,659
2008		_		-		-		17,000		57,733		74,733
2009		_		-		-		18,000		56,749		74,749
2010-2014		_		_		-		118,000		265,728		383,728
2015-2019		-		_		-		160,000		226,762		386,762
2020-2024		_		-		-		213,000		174,763		387,763
2025-2029		-		-		-		280,000		105,929		385,929
2030-2034		-		•		-	_	228,000	_	23,286		251,286
	\$	58,832	\$	4,404	<u>\$</u>	63,236	<u>\$</u>	1,081,000	<u>\$</u>	1,089,590	<u>\$</u>	2,170,590

Year Ended		Total	Pr	imary Goveri	ıme	nt	Component Units					
June 30,	_ <u>_ </u>	rincipal		Interest	_	Total	I	Principal		Interest		Total
2005	\$	53,832	\$	63,785	\$	117,617	\$	61,245	\$	9,406	\$	70,651
2006		36,000		60,600		96,600		63,020		7,630		70,650
2007		16,000		8,659		24,659		64,847		5,804		70,651
2008		17,000		57,733		74,733		66,727		3,924		70,651
2009		18,000		56,749		74,749		68,661		1,990		70,651
2010-2014		118,000		265,728		383,728		-		-		•
2015-2019		160,000		226,762		386,762		-		-		-
2020-2024		213,000		174,763		387,763		-		-		-
2025-2029		280,000		105,929		385,929		-		-		-
2030-2034		228,000	_	23,286		251,286					-	
	\$	1,139,832	\$	1,043,994	\$	2,183,826	\$	324,500	\$	28,754	\$	353,254

June 30, 2004

NOTE 7: DISAGGREGATED RECEIVABLE AND PAYABLE BALANCES

Receivables and payables as of year end for the City's governmental and business-type activities in the aggregate are as follows:

		Primary Government					
		vernmental Activities		siness-type Activities		Units	
Receivables:			_		•		
Taxes	\$	9,858	\$	-	\$	-	
Special assessments							
Due within one year		-		3,654		-	
Due in more than one year		-		15,225		-	
Accounts		10,923		471,198		2,250	
Intergovernmental		163,776		15,163			
Total receivables	<u>\$</u>	184,557	<u>\$</u>	505,240	\$	2,250	
Accounts payable and accrued expenses:					_		
Accounts	\$	51,291	\$	147,700	\$	2,029	
Payroll and related liabilities		22,140		28,990		111	
Interest		-		10,659		-	
Intergovernmental		3,209		-		52,316	
Deposits payable		7,495		29,985			
Total accounts payable and accrued expenses	\$	84,135	\$	217,334	\$	54,456	

June 30, 2004

NOTE 8: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivable and payable balances at June 30, 2004 is as follows:

	 Due from/Advance from										
	 neral und	_ <u>I</u>	_ibrary	_An	nbulance		Sewer		Electric		Total
Due to:											
General Fund	\$ -	\$	9,210	\$	-	\$	-	\$	-	\$	9,210
Nonmajor Governmental											
Cemetery Perpetual Care	120		-		-		-		-		120
Electric	-		4,790		3,485		-		-		8,275
Internal Service	 				-		-	_	52,380		52,380
	120		14,000		3,485		-		52,380		69,985
Advance to:											
Electric							525,367				525,367
	\$ 120	\$	14,000	\$	3,485	\$	525,367	\$	52,380	\$	595,352

Management does not anticipate individual interfund balances to remain outstanding for periods in excess of one year; however, the advance receivable and payable between the sewer fund and electric fund is classified as a noncurrent liability in the government-wide and fund financial statements. Balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers reported in the fund statements were as follows:

	 	 Transfe	er fr	om				
	 General Fund	emetery petual Care		Library Trust		Electric		Total
Transfer to:								
General Fund	\$ -	\$ 20,000	\$	-	\$	386,366	\$	406,366
Nonmajor Governmental:								
Library	75,495	-		23,786		-		99,281
Cemetery Perpetual Care	2,640	-		-		-		2,640
Ambulance	-	-		-		130,000		130,000
Sewer	 	 -		-		50,000		50,000
	\$ 78,135	\$ 20,000	<u>\$</u>	23,786	<u>\$</u>	566,366	<u>\$</u>	688,287

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the various funds to finance various programs accounted for in other funds in accordance with budgetary authorizations.

June 30, 2004

NOTE 9: RISK MANAGEMENT

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation) and certain medical benefits provided to employees.

The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal League risk pool program for all other claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase excess commercial insurance coverage and to pay member claims in excess of deductible amounts.

NOTE 10: EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System):

Plan Description – The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, established and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy – The City is required to contribute at an actuarially determined rate. For the year ended June 30, 2004 the rate was 13.28% for general employees and 8.66% for police/fire employees. The contributions requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the City, depending on the MERS contribution program adopted by the City.

Annual Pension Costs – For the fiscal year ended June 30, 2004, the City's annual pension cost of \$187,082 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2001, using the entry actual age cost method. Significant actuarial assumption used include: (i) an 8% investment rate of return; (ii) projected salary increases of 4.5% per year; and (iii) 2.5% per year cost of living adjustments. All are determined using techniques that smooth the effects of short-term volatility over a four year period. The unfunded actuarial liability is being amortized at a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

June 30, 2004

Three year trend information as of June 30, 2004 follows:

Fiscal year ended June 30,		2004	 2003	2002	
Annual pension cost Percentage of APC contributed	\$	187,082 100%	\$ 142,407 100%	\$	146,187 100%
Net pension obligation		_	-		•

Post Employment Benefits:

The City has a policy, in accordance with a union agreement, of paying health insurance for certain retired employees. Health insurance payments for a qualifying retired employee are paid from the time of retirement until the employee reaches the age of 65 or qualifies for Medicare benefits.

During the year ended June 30, 2004 there was one retired employee receiving this benefit. The City's cost of this benefit for the year was \$2,093. The City is using a pay-as-you-go method of funding this benefit program.

Deferred Compensation Plan:

The employees of the City are allowed to contribute on a voluntary basis to a deferred compensation plan through payroll deductions. The plan is made available to all eligible employees by authority of Section 457 of the Internal Revenue Code (IRC), and is administered by ICMA Retirement Corporation. Employees may set aside and invest portions of their current income to meet their financial requirements and supplement their retirement and social security benefits.

In the 1999 fiscal year, the City adopted GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. The City has placed all Deferred Compensation Plan assets with a trustee, relinquishing all fiduciary accountability for the assets. Accordingly, the related assets and liabilities of the plan are not reported in the City's financial statements.

NOTE 11: FUND EQUITY

Specific reservations on fund equity include:

Reserved for prepaid expenditures – This reserve was created to indicate that the portion of fund balance represented by prepaid expenditures is not available for appropriation.

Reserved for nonexpendable principal – This reserve was created to indicate that portion of fund balance representing the nonexpendable principal portion required to be retained in perpetuity for certain trusts.

June 30, 2004

NOTE 12: COMPONENT UNITS REPORTING

A condensed statement of net assets and activities for each of the discretely presented component units is shown below

shown below.								
	Dev	owntown velopment uthority	I	x Increment Financing <u>Authority</u>	De	iconomic velopment orporation	c	Total component <u>Units</u>
STATEMENT OF NET ASSETS:								
Assets:	_				•	105.010	•	<00 00 2
Cash and cash equivalents	\$	32,080	\$	542,083	\$	105,919	\$	680,082
Receivables		57.002		490,030		2,250 34,221		2,250 581,254
Capital assets, net		57,003		490,030		34,221		301,234
Total assets		89,083		1,032,113		142,390		1,263,586
Liabilities:								
Accounts payable and accrued expenses		2,030		52,396		30		54,456
Long-term liabilities:				(1.045				61 245
Due within one year		-		61,245		-		61,245 263,255
Due in more than one year				263,255			_	203,233
Total liabilities		2,030		376,896		30		378,956
Net assets:								
Invested in capital assets, net of related debt		57,003		165,530		34,221		256,754
Unrestricted		30,050		489,687		108,139	_	627,876
Total net assets	\$	87,053	\$	655,217	<u>\$</u>	142,360	<u>\$</u>	884,630
STATEMENT OF ACTIVITIES:								
Expenses	\$	52,562	\$	232,354	\$	2,880	\$	287,796
Program revenues: Charges for services	***************************************	•		•		35,730		32,850
Total governmental activities		(52,562)		(232,354)		32,850		(252,066)
General revenues:		22.222		220.066				270 755
Property taxes, levied for general purpose		39,889		338,866		1 701		378,755 4,880
Unrestricted investment earnings Insurance recovery	-			2,895 18,860		1,781		18,860
Total general revenues		40,093		360,621		1,781		402,495
Change in net assets		(12,469)		128,267		34,631		150,429
Net assets, beginning of year		99,522	_	526,950		107,729		734,201
Net assets, end of year	\$	87,053	\$	655,217	\$	142,360	\$	884,630

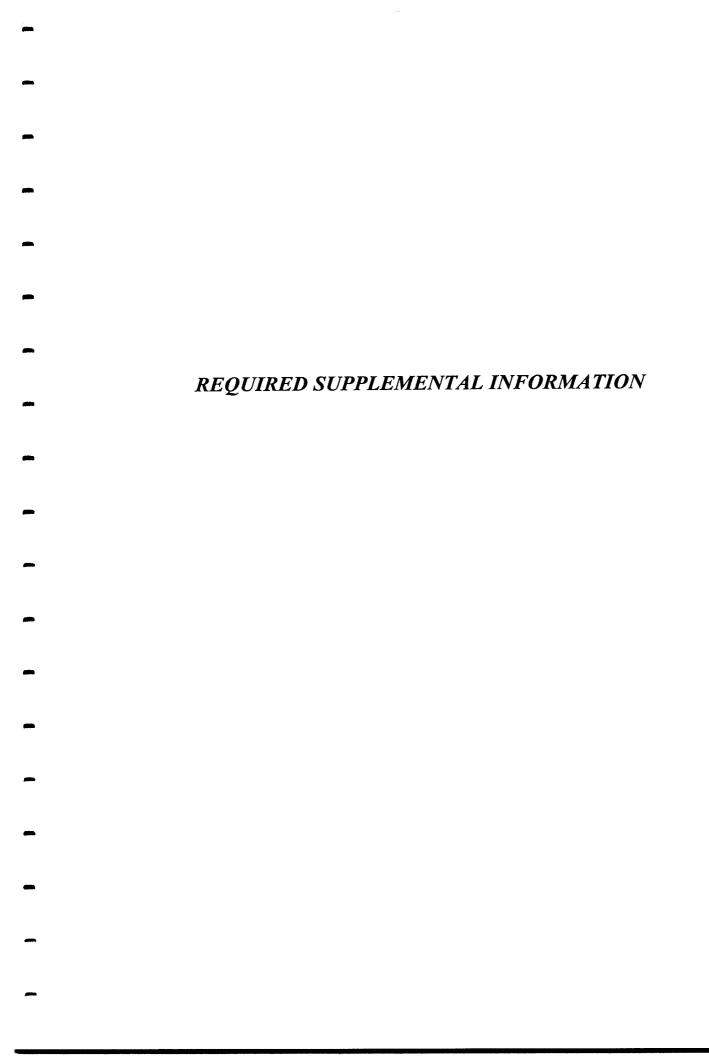
June 30, 2004

NOTE 13: PRIOR PERIOD ADJUSTMENT

Correction of Errors:

In the prior year, receivables for an ambulance contract and penal fines were not recorded. There also were capital assets recorded on the Perpetual Care Fund in error. The effect on the beginning net assets of the funds was as follows:

		nterprise Fund mbulance	 Special Revenue Fund Library	Permanent Fund Cemetery Perpetual Care	
Net assets, beginning of year, as previously stated	\$	247,184	\$ 44,770	\$	203,216
Prior period adjustments to:					
Recognize ambulance contract receivable		16,084			
Recognize penal fines receivable			27,185		
Remove assets recorded in error			 		(2,500)
Net assets, beginning of year, as restated	_\$_	263,268	\$ 71,955	\$	200,716



SCHEDULE OF PENSION PLAN FUNDING PROGRESS

Actuarial Valuation Date	12/31/2003	12/31/2002	12/31/2001	
Actuarial Value of Assets	\$ 3,417,400	\$ 3,166,121	\$ 3,114,039	
Actuarial Accrued Liability (AAL)	4,844,404	4,389,082	4,130,909	
Unfunded AAL (UAAL)	1,427,004	1,222,961	1,016,870	
Funded Ratio	71%	72%	75%	
Covered Payroll	1,416,962	1,284,553	1,282,391	
UAAL as a percentage of covered payroll	101%	95%	79%	

BUDGETARY COMPARISON SCHEDULE

		Budgeted Amounts					Actual Over (Under)		
		Original		Final		Actual		Final Budget	
Revenues:									
Property taxes	\$	580,580	\$	554,321	\$	570,424	\$	16,103	
Licenses and permits		12,793		23,366		23,442		76	
Federal grants		200		-		-		-	
State grants		345,376		407,607		316,601		(91,006)	
Contributions from other units		88,680		80,350		79,826		(524)	
Charges from services		83,300		83,910		85,515		1,605	
Fines and forfeits		1,200		4,050		4,312		262	
Interest and rents		8,400		8,250		8,402		152	
Other revenue		73,000		16,060	_	15,285		(775)	
Total revenues	_	1,193,529		1,177,914		1,103,807		(74,107)	
Expenditures:									
General government		466,110		463,334		457,005		(6,329)	
Public safety		538,214		541,318		534,673		(6,645)	
Public works		369,025		336,908		341,801		4,893	
Health and welfare		9,868		10,485		10,485		•	
Recreation and culture		74,540		73,458		65,339		(8,119)	
Capital outlay		122,000		58,000		42,697		(15,303)	
Debt service:									
Principal		20,000		20,000		20,000		-	
Interest and charges		-		3,097	_	7,726		4,629	
Total expenditures		1,599,757		1,506,600		1,479,726		(26,874)	
Excess (deficiency) of								(47.000)	
revenues over expenditures		(406,228)		(328,686)		(375,919)		(47,233)	
Other financing sources (uses):		40.5.000		406.066		106.366			
Transfers in		485,000		406,366		406,366		30,369	
Transfers out	-	(75,495)		(75,495)		(105,864)			
Total other financing sources (uses)		409,505		330,871		300,502		(30,369)	
Net change in fund balance		3,277		2,185		(75,417)		(77,602)	
Fund balance, beginning of year		246,932	_	246,932		246,932			
Fund balance, end of year	\$	250,209	<u>\$</u>	249,117	<u>\$</u>	171,515	\$	(77,602)	

SPECIAL REVENUE FUND – MAJOR STREET FUND

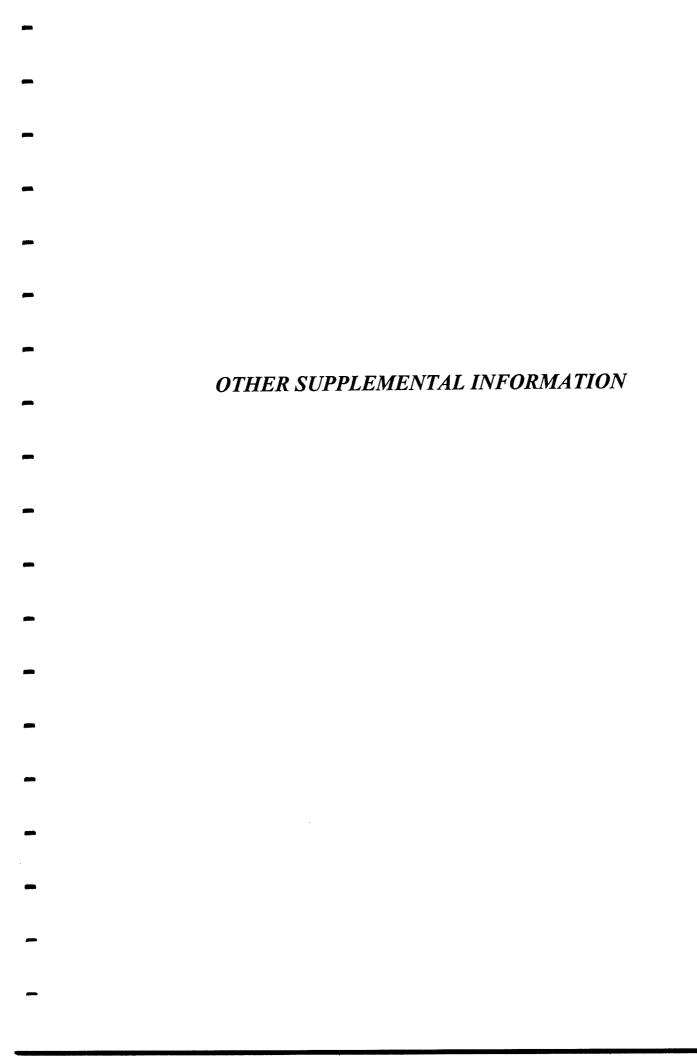
BUDGETARY COMPARISON SCHEDULE

				Actual	
	Budgeted	l Amounts		Over (Under)	
	Original	Final	Actual	Final Budget	
Revenues: State grants Interest and rents	\$ 152,000 500	\$ 153,545 855	\$ 154,982 1,098	\$ 1,437 243	
Total revenues	152,500	154,400	156,080	1,680	
Expenditures: Public works	160,799	167,969	164,512	(3,457)	
Total expenditures	160,799	167,969	164,512	(3,457)	
Excess (deficiency) of revenues over expenditures	(8,299)	(13,569)	(8,432)	5,137	
Net change in fund balance	(8,299)	(13,569)	(8,432)	5,137	
Fund balance, beginning of year	177,373	177,373	177,373		
Fund balance, end of year	\$ 169,074	\$ 163,804	\$ 168,941	\$ 5,137	

SPECIAL REVENUE FUND – LOCAL STREET FUND

BUDGETARY COMPARISON SCHEDULE

				Actual	
	Budgeted	Amounts		Over (Under)	
	Original	Final	Actual	Final Budget	
Revenues: Property taxes State grants	\$ 111,255 50,000	\$ 112,104 59,956	\$ 112,085 60,475	\$ (19) 519	
Contributions from other units Interest and rents	5,000 1,600	5,000 1,000	5,000 1,099	- 99	
Total revenues	167,855	178,060	178,659	599	
Expenditures: Public works Total expenditures	<u>179,581</u> 179,581	<u>177,743</u> 177,743	169,068 169,068	(8,675) (8,675)	
Excess (deficiency) of revenues over expenditures	(11,726)	317	9,591	9,274	
Net change in fund balance	(11,726)	317	9,591	9,274	
Fund balance, beginning of year	180,888	180,888	180,888		
Fund balance, end of year	\$ 169,162	\$ 181,205	\$ 190,479	\$ 9,274	



DETAILED SCHEDULE OF REVENUES

Revenues:	
Current taxes:	\$ 469,653
Property taxes	246
Trailer tax Administration fees	16,642
Payment in lieu of taxes	83,883
Payment in neu of taxes	570,424
Licenses and permits:	
Nonbusiness licenses and permits	17,411
CATV franchise fees	6,031
	23,442
State grants:	1 625
Liquor license fees	1,635
State revenue sharing - sales tax	313,530
Police grant	1,436
	316,601
Contribution from other units:	13,275
Fire protection fees	66,551
Reimbursement from school district - Cops in Schools	79,826
Charges for services:	(0.202
Refuse collection fees	60,292 14,464
Cemetery fees	599
Police services and reports	10,160
Fire runs	85,515
Fines and forfeitures:	4 212
Other	4,312
	4,312
Interest and rents:	302
Interest	8,100
Rents	8,402
	0,402
Other revenue:	4,140
Cemetery lots/perpetual care	11,145
Other	15,285
Total revenues	1,103,807
Other Financing Sources:	407.277
Transfers from other funds	406,366
	406,366
Total revenues and other financing sources	\$ 1,510,173

DETAILED SCHEDULE OF EXPENDITURES

Personnel	\$ 5,455
Fringe benefits	333
Supplies	142
Contracted services	3,239
Travel/Mileage	253
Dues and memberships	9,019
Conference and travel	771
Printing and publications	4,077
Insurance	18,243
Other	5,900
	47,432
Manager:	72,764
Personnel	16,643
Fringe benefits	392
Supplies	249
Telephone	1,347
Travel/Mileage	518
Dues and memberships	175
Conference and travel	1,654
Insurance	500
Equipment rental	94,242
Clerk:	
Personnel	48,421
Fringe benefits	24,931
Supplies	1,201
Contracted services	700
Telephone	210
Travel/Mileage	213
Dues and memberships	214
Conference and travel	469
Printing and publications	616
Insurance	580
Equipment rental	500
Equipment remai	78,055
Board of Review:	
Personnel	510
Fringe benefits	39
Printing and publications	234
Trining and paonoacions	783

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

General Government (continued):	
Treasurer:	
Personnel	49,883
Fringe benefits	21,182
Supplies	1,978
Contracted services	570
Telephone	210
Travel/Mileage	89
Dues and memberships	75
Conference and travel	379
Printing and publications	48
Insurance	790
Equipment rental	700
Other	1,672
	77,576
Assessor:	966
Supplies	12,171
Contracted services	200
Travel/Mileage	1,270
Repairs and maintenance	300
Equipment rental	14,907
Elections:	
Personnel	526
Supplies	862
Contracted services	412
Travel/Mileage	15
Printing and publications	603
Equipment rental	150
- 1· 1	2,568
Buildings and Grounds:	2.215
Personnel	2,215
Fringe benefits	153
Supplies	1,711
Contracted services	16,391
Telephone	615
Insurance	421
Utilities	3,477
Repairs and maintenance	441
	25,424

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

General Government (continued):	
Cemetery:	
Personnel	\$ 57,542
Fringe benefits	30,245
Supplies	3,324
Contracted services	5,858
Telephone	429
Printing and publications	167
Insurance	522
Utilities	3,868
Repairs and maintenance	354
Equipment rental	3,210
	105,519
Community Center:	
Personnel	3,901
Fringe benefits	300
Supplies	794
Contracted services	35
Insurance	384
Utilities	3,773
Repairs and maintenance	1,177
Other	135
Onio	10,499
Total general government	<u>457,005</u>
Public Safety:	
Police:	
Personnel	\$ 348,144
Fringe benefits	52,356
Supplies	11,653
Contracted services	1,589
Telephone	4,846
Travel/Mileage	808
Dues & memberships	150
Education & training	3,060
Printing & publications	448
Insurance	11,716
Utilities	3,697
Repairs & maintenance	3,733
Equipment rental	425
Other	347
	442,972

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

General Government (continued):	
Public Safety, (continued):	
Fire:	
Personnel	21,466
Fringe benefits	1,627
Supplies	11,713
Telephone	722
Travel/Mileage	3,557
Dues & memberships	295
Education & training	1,996
Insurance	7,367
Utilities	9,979
Repairs & maintenance	8,754
Equipment rental	100
	67,576
Protective Inspection & Regulation:	
Personnel	6,883
Fringe benefits	516
Supplies	230
Contracted services	10,935
Dues & memberships	20
Education & training	48
Printing & publications	2,844
Equipment rental	300
	21,776
Other Public Safety:	
Personnel	1,462
Supplies	631
Dues & memberships	256
- -	2,349
Total public safety	534,673

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

General Government (continued):	
Public Works:	
Department of Public Works:	
Personnel	64,823
Fringe benefits	43,686
Supplies	1,553
Telephone	1,084
Printing and publications	423
Insurance	1,413
Utilities	10,592
Repairs and maintenance	720
Equipment rental	1,235
Other	502
	126,031
Sidewalks:	
Personnel	2,358
Supplies	3,124
Contracted services	6,697
Equipment rental	1,258
Equipment terms	13,437
D. C. L.	
Drains - Public Benefit, at Large:	6,262
Personnel	2,426
Supplies	3,746
Equipment rental	
	12,434
Street Lighting:	
Personnel	5,671
Supplies	19,104
Utilities	45,571
	70,346
Sanitation:	
Personnel	30,311
Supplies	1,021
Contracted services	60,332
Printing and publications	88
Equipment rental	27,801
Equipment tentar	119,553
Total public works	341,801
1 otal paolio works	

DETAILED SCHEDULE OF EXPENDITURES (CONTINUED)

General Government (continued):	
Health and Welfare:	
Ambulance:	
Contracted services	10,485
	10,485
Total health and welfare	10,485
Recreation and Culture:	
Recreation/Parks:	
Personnel	\$ 14,820
Supplies	6,420
Contracted services	30,615
Printing and publications	142
Insurance	645
Utilities	2,055
Equipment rental	8,335
Other	2,307
	65,339
Total recreation and culture	65,339
Debt Service:	
Principal	20,000
Interest and fees	7,726
	27,726
Capital Outlay:	
General government	10,000
Public safety	15,216
Recreation and culture	17,481
	42,697
Total expenditures	1,479,726
Other Financing Uses:	
Transfers to other funds	105,864
	105,864
Total expenditures and other financing uses	<u>\$ 1,585,590</u>

NONMAJOR GOVERNMENTAL FUNDS

COMBINING BALANCE SHEET

June 30, 2004

		Special Revenue Fund		Pern	nanent Fund	s		Total
		Library Fund	ngersnap Trust		Cemetery Perpetual Care		Library Trust	lonmajor vernmental Funds
Assets: Cash and cash equivalents Investments Due from other governmental units Due from other funds Prepaid expenditures	\$	75,977 - 24,681 - 513	\$ - 12,396 - - -	\$	199,027 - - 120 -	\$	16,748 442,190 - - -	\$ 291,752 454,586 24,681 120 513
Total assets	<u>\$</u>	101,171	\$ 12,396	\$	199,147	\$	458,938	\$ 771,652
Liabilities and Fund Balances: Liabilities: Accounts payable and accrued expenses Due to other funds Total liabilities	\$ 	3,117 14,000 17,117	\$ - - -	\$	- - -	\$	- - -	\$ 3,117 14,000 17,117
Fund balances: Reserved for: Prepaid expenditures Nonexpendable principal Unreserved: Special revenue funds		513 - 83,541	 - 12,396 -		- 199,147 -		458,938	 513 670,481 83,541
Total fund balances		84,054	 12,396		199,147		458,938	 754,535
Total liabilities and fund balances	<u>\$</u>	101,171	\$ 12,396	<u>\$</u>	199,147	\$	458,938	\$ 771,652

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

	Special Revenue Fund		Total		
	Library Fund	Gingersnap Trust	Cemetery Perpetual Care	Library Trust	Nonmajor Governmental Funds
Revenues:					
State grants	\$ 6,278	\$ -	\$ - :	\$ -	\$ 6,278
Contributions from other units	51,642	-	-	-	51,642
Charges for services	4,984	-	-	-	4,984
Fines and forfeits	1,462	-	=	-	1,462
Interest and rents	293	186	15,635	681	16,795
Other revenue	1,459		2,796		4,255
Total revenues	66,118	186	18,431	681	85,416
Expenditures:					
Recreation and culture	153,300		-	5,288	158,588
Total expenditures	153,300			5,288	158,588
Excess (deficiency) of revenues over expenditures	(87,182)	186	18,431	(4,607)	(73,172)
Other financing sources (uses):					
Transfers in	99,281	-	-	-	99,281
Transfers out			(20,000)	(23,786)	(43,786)
Total other financing sources (u	99,281	_	(20,000)	(23,786)	55,495
Net change in fund balance	12,099	186	(1,569)	(28,393)	(17,677)
Fund balance, beginning of year, as re	71,955	12,210	200,716	487,331	772,212
Fund balance, end of year	\$ 84,054	\$ 12,396	\$ 199,147	458,938	\$ 754,535

FIDUCIARY FUNDS – AGENCY FUND

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

	July 1, 2003		Additions		Deductions		June 30, 2004	
Current Tax Collection Fund								
Assets: Cash and cash equivalents	<u>\$</u>	46,114	<u>\$</u>	1,915,597	<u>\$</u>	1,882,312	\$	79,399
Liabilities: Due to other governmental units Due to other funds and component units	\$	41,889 4,225	\$	881,068 1,034,529	\$	843,558 1,038,754	\$	79,399
Total liabilities	\$	46,114	\$	1,915,597	\$	1,882,312	\$	79,399

GOVERNMENTAL FUND DEBT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2004

2001 NOTE PAYABLE - FIRE TRUCK

Date of Note - July 18, 2001

Amount of Note - \$100,000

Interest Rate - 5.1%

Fiscal Year Ended June 30,	 Interest November I			Total Requirements		
2005 2006	\$ 2,088 1,044	\$	20,000 20,000	\$	22,088 21,044	
	\$ 3,132	\$	40,000	\$	43,132	

GOVERNMENTAL FUND DEBT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2004

2002 NOTE PAYABLE - VACTOR MACHINE

Date of Note - February 1, 2002

Amount of Note - \$53,000

Interest Rate - 6.75%

Fiscal Year Ended June 30,	Interest February 1			Total Requirements		
2005	\$ 1,272	\$	18,832	\$	20,104	
	\$ 1,272	\$	18,832	\$	20,104	

ENTERPRISE FUNDS

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2004

1991 SEWAGE DISPOSAL SYSTEM REVENUE BONDS:

Date of Issue - January 23, 1992

Amount of Issue - \$950,000

Interest Rate - 5.75%

Fiscal Year					
Ended	Interest	Interest	Principal	Total Requirements	
June 30,	November 1	May 1	May 1		
2005	\$ 25,760	\$ 25,415	\$ 12,000	\$ 63,175	
2006	25,415	25,041	13,000	63,456	
2007	25,041	24,668	13,000	62,709	
2008	24,668	24,265	14,000	62,933	
2009	24,265	23,834	15,000	63,099	
2010	23,834	23,374	16,000	63,208	
2011	23,374	22,856	18,000	64,230	
2012	22,856	22,281	20,000	65,138	
2013	22,281	21,678	21,000	64,959	
2014	21,678	21,016	23,000	65,694	
2015	21,016	20,326	24,000	65,343	
2016	20,326	19,608	25,000	64,934	
2017	19,608	18,831	27,000	65,439	
2018	18,831	18,026	28,000	64,858	
2019	18,026	17,164	30,000	65,190	
2020	17,164	16,244	32,000	65,408	
2021	16,244	15,266	34,000	65,510	
2022	15,266	14,231	36,000	65,498	
2023	14,231	13,139	38,000	65,370	
2024	13,139	11,989	40,000	65,128	
2025	11,989	10,781	42,000	64,770	
2026	10,781	9,488	45,000	65,269	
2027	9,488	8,108	48,000	65,595	
2028	8,108	6,670	50,000	64,778	
2029	6,670	5,146	53,000	64,816	
2030	5,146	3,536	56,000	64,682	
2031	3,536	1,811	60,000	65,347	
2032	1,811	-	63,000	64,811	
	\$ 470,550	\$ 444,790	\$ 896,000	\$ 1,811,340	

ENTERPRISE FUNDS

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2004

1994 SEWAGE DISPOSAL SYSTEM REVENUE BONDS:

Date of Issue - May 13, 1994

Amount of Issue - \$200,000

Interest Rate - 5.00%

Fiscal								
Year						_		
Ended		nterest	Interest May 1		Principal May 1		Total Requirements	
June 30,	No	vember 1						
2005	\$	4,625	\$	4,625	\$	3,000	\$	12,250
2006		4,550		4,550		3,000		12,100
2007		4,475		4,475		3,000		11,950
2008		4,400		4,400		3,000		11,800
2009		4,325		4,325		3,000		11,650
2010		4,250		4,250		4,000		12,500
2011		4,150		4,150		4,000		12,300
2012		4,050		4,050		4,000		12,100
2013		3,950		3,950		4,000		11,900
2014		3,850		3,850		4,000		11,700
2015		3,750		3,750		5,000		12,500
2016		3,625		3,625		5,000		12,250
2017		3,500		3,500		5,000		12,000
2018		3,375		3,375		5,000		11,750
2019		3,250		3,250		6,000		12,500
2020		3,100		3,100		6,000		12,200
2021		2,950		2,950		6,000		11,900
2022		2,800		2,800		7,000		12,600
2023		2,625		2,625		7,000		12,250
2024		2,450		2,450		7,000		11,900
2025		2,275		2,275		8,000		12,550
2026		2,075		2,075		8,000		12,150
2027		1,875		1,875		8,000		11,750
2028		1,675		1,675		9,000		12,350
2029		1,450		1,450		9,000		11,900
2030		1,225		1,225		9,000		11,450
2031		1,000		1,000		10,000		12,000
2032		750		750		10,000		11,500
2033		500		500		10,000		11,000
2034		250		250		10,000		10,500
	\$	87,125	\$	87,125	\$	185,000	\$	359,250

COMPONENT UNIT

SCHEDULE OF DEBT SERVICE REQUIREMENTS

June 30, 2004

PROMISSORY NOTE - BUILDING

Date of Issue – June 3, 2004

Amount of Note - \$324,500

Interest Rate - 2.86%

Fiscal Year Ended June 30,	Interest June 3		rincipal Iune 3	Total Requirements	
2005	\$ 9,406	\$	61,245	\$	70,651
2006	7,631		63,020		70,651
2007	5,804		64,847		70,651
2008	3,924		66,727		70,651
2009	1,991		68,661		70,651
	\$ 28,756	\$	324,500	\$	353,255



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the City Council City of Croswell, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Croswell, Michigan, as of and for the year ended June 30, 2004, which collectively comprise the City of Croswell, Michigan's basic financial statements and have issued our report thereon dated October 20, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Croswell, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Croswell, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Berthiaume & Company

Certified Public Accountants

Berthiaume of Co.

October 20, 2004



60 Harrow Lane Saginaw, Michigan 48603

(989) 791-1555 Fax (989) 791-1992

MANAGEMENT LETTER

To the City Council City of Croswell, Michigan

We have completed our audit of the financial statements of the City of Croswell for the year ended June 30, 2004, and have issued our report thereon dated October 20, 2004. As part of our examination, we made a study and evaluation of the City's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the City's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The City's administration is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the administration are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide the administration with reasonable, but not absolute assurance that assets are safeguarded against unauthorized use or disposition and that transactions are executed in accordance with the administration's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Croswell taken as a whole. Our study and evaluation disclosed no conditions that we believe to be material weaknesses.

This report is intended solely for the use of the City management and should not be used for any other purpose.

We wish to extend our appreciation to you and your staff for the assistance accorded us during our examination.

Sincerely,

Berthiaume & Company Certified Public Accountants

Betthiume & Co.

October 20, 2004